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A Review on the Relationship Between Organizational Systems and Performance

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Abstract: Research on strategic management has generally been concerned with assessing the performance outcomes of organizations and their antecedents. The overarching goal for a firm is generally expressed as a search for the factors that lead to gaining competitive advantage in the market. This study will review the linkage between the organizational systems in which firms are managed and firms' primary business objective of producing excellent performance level. In order to generate a good and sound business strategy, firms need to initially examine and understand their internal organizational strengths and/or weaknesses. Indeed by having information on the relative degree of importance of the relationship between organizational systems and performance, in particular organizations will be able to prioritize their strategies accordingly.

Key words: Organizational systems and performance, competitive advantage from the resource-based view, strategic management, business objective, competitive advantage, Malaysia

INTRODUCTION

Competitive advantage is a concept that remains a major research area as far as strategic management is concerned. Competitive advantage is also important as far as global and local businesses are concerned. In order to compete and sustain successfully, locally and globally, businesses must not only excel in their area but also persevere in the long run. Achieving such a sustainable competitive advantage status is not an easy task without a proper road map or strategy being outlined and practiced. Indeed, research on strategic management has generally been concerned with assessing the performance outcomes of organizations and their antecedents (Ma, 1999; Falshaw *et al*., 2006; Ainuddin *et al*., 2007). The overarching goal for a firm is generally expressed as a search for the factors that lead to gaining competitive advantage in the market (Ma, 1999; Morgan *et al*., 2004; Flint and van Fleet, 2005). This study will review the linkage between the organizational systems in which firms are managed and firms' primary business objective of producing excellent performance level.

LITERATURE REVIEW

Organizational systems and performance: During the last 2 decades or so, economic activities have become increasingly global and MNCs have played a major role in this process of globalization (Kogut and Zander, 1993, 2003; Das, 1997; Pan and Chi, 1999; Svensson, 2006). From the literature review, most previous studies conducted on MNCs, particularly those related to manufacturers are concerned with their strategy and performance (Kogut and Zander, 1993, 2003; Das, 1997; Pan and Chi, 1999; Werner, 2002; Colotla *et al*., 2003; Goerzen and Beamish, 2003; Ma, 2004; Falshaw *et al*., 2006; Svensson, 2006; Ainuddin *et al*., 2007). Indeed, the subject of MNCs and their organizational performance have been given attention to by previous researchers because of their (MNCs) potential global outreach and impact (Johanson and Vahlne, 1977; Prahalad and Lieberthal, 1998; Verbeke, 2003; Yu and Cannella, 2007). Lately in Malaysia, studies that are concerned with strategy and performance have focused on local business organizations, concentrating among others on the hotel industry (Radzi, 2004), Malaysian top 1000 corporations (Zain, 2005), manufacturers (Ibrahim, 2007; Jusoh *et al*., 2008; Jusoh and Parnell, 2008), Public-Listed Companies (PLCs) (Othman, 2007; Kasim, 2008) and the Small and Medium-sized Enterprises (SMEs) (Rose *et al*., 2006). These studies, except for the one by Radzi (2004) have found a significant relationship between firms' strategy and performance which signifies the importance of having a sound strategy not only to improve but also to measure organizational performance.

In order to generate a good and sound business strategy, firms need to initially examine and understand their internal organizational strengths and/or weaknesses.

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As such, a different approach and perspective is needed to examine and understand the competitiveness of manufacturers by analyzing the relationship between their internal organizational resources and systems, particularly the manufacturers that operate in Malaysia. In light of this background, it is vital to study and understand the relationship between manufacturers' organizational resources, capabilities, systems and their competitive advantage and performance. This is because by knowing the significant attributes of the firm's resources and capabilities to generate competitive advantage and performance alone is not sufficient as far as strategic management of organizations is concerned. We need to further assess the relationship between organizational resources, capabilities, systems and their competitive advantage and performance level to provide management with the knowledge on the relative degree of importance of the related variables in order to guide them in formulating and implementing their firms' strategy. Indeed by having information on the relative degree of importance of the relationship between organizational systems and performance, in particular organizations will be able to prioritize their strategies accordingly.

ORGANIZATIONAL SYSTEMS

The systems perspective is a way of viewing problems more than it is a specific approach to management (DuBrin, 2006). This approach is based on the concept that an organization is an integrated system or an entity of interrelated parts. Adjustment to one part of the system will affect the other parts automatically. Further according to DuBrin (2006), the organization transforms inputs into outputs.

The other two influential concepts from the systems perspective are Entropy and Synergy (DuBrin, 2006). Entropy is described as a concept of the systems approach to management which states that an organization will die without continuous input from the outside environment (DuBrin, 2006). This concept explains that the organization must continually receive inputs from the outside world in order to survive and/or stay ahead of the environment and competition. Whereas, synergy is a concept of the systems approach to management which states that the whole organization working together will produce more than the parts working independently (DuBrin, 2006). This approach highlights that the whole systems and processes in an organization which are interdependent of each other need to integrate in order to succeed. Systems can be defined as business processes and procedures. According to Ray *et al*. (2004), business processes are actions that firms engage in to accomplish some business purpose or objective. Further, business processes can be thought of as the routines or activities that a firm develops in order to get something done (Porter, 1991). Studies have shown that systems play a significant and vital role in the ensuing resources, capabilities, competitive advantage and performance relationship (Porter and Millar, 1985; Gimenez and Ventura, 2002; Wiklund and Shepherd, 2003; Winter, 2003; Bowen and Ostroff, 2004; Ray *et al*., 2004; Voss, 1995; Neely, 2005; Franco-Santos *et al*., 2007; Perez-Freije and Enkel, 2007). One of the important aspects of systems is information technology and the information revolution is transforming the nature of competition (Porter and Millar, 1985). An important concept that highlights the role of information technology in competition is the value chain and a company's value chain is a system of interdependent activities which are connected by linkages (Porter and Millar, 1985).

Porter and Millar (1985) argue that the value chain for a company in a particular industry is embedded in a larger stream of activities that they term the value system. By linkages and coordination in the process of transforming inputs into outputs, a company can create competitive advantage via optimization of resources and capabilities. The study by Porter and Millar (1985) stresses the importance of information system. Information technology and information system have significant impact on firm's competitive advantage which are conceptualized as firm's infrastructure, operations, technology development, procurement, logistics, service, value system, cost and differentiation. This notion of significant relationship between information systems and competitive advantage are further supported by Cragg (2006) and Azevedo and Ferreira (2007). Winter (2003) analyzes the relationship between capabilities, routines and competitive advantage which are conceptualized as tacit knowledge, learned behaviour, patterned and repetitious behaviour and activity and output or product development. The study argues that organizational capabilities involve patterning of activity and collection of routines.

Whereas a study by Voss (1995) on manufacturing strategy, capabilities, strategic choices and best practice finds that the focus on capability can lead to management attention being paid to the development and exploitation of competitive capabilities in manufacturing. The variables are measured in terms of cost, quality, dependability, flexibility, delivery lead-time, reliability, features, volume, price; policy deployment, infrastructure; core practices and processes. Other studies by Hobday *et al*. (2005) and Pun and White (2005) support the notion of significant relationship between organizational systems, capabilities and performance.

Critics of Resource-Based View (RBV) have pinpointed that studies on resource-based view have been concentrating more on the attributes of resources and capabilities to build competitive advantage. RBV study has been paying less attention on the study of the relationship between firms' resources and capabilities and the way firms are organized. As far as organizational systems are concerned, this creates an opportunity for an empirical study. As such, it will be potentially beneficial to examine the ensuing relationship between these variables (organizational resources, capabilities and systems), competitive advantage and performance that has been lacking in empirical research.

Studies have shown the importance of organizational strategy for attaining good performance for the firm (Thomas and Ramaswamy, 1994; Hall, 1995; Kim and Mauborgne, 2005; Rose *et al*., 2007, 2008; Elamin, 2008). Excellent strategies can be implemented with good organizational systems that will bind and coordinate the organizational resources and capabilities towards attaining competitive advantage and performance for the firm. This is an area that is explored in this study as far as organizational systems are concerned. This research pays specific attention to systems from the dimension of internal and external, the main elements of which consist of process and interactions. Process plays a significant role in harnessing organizational resources, capabilities, competitive advantage and performance relationship where process is measured in terms of the emphasis on company vision, mission, policy and procedure deployment (Gimenez and Ventura, 2002; Ray *et al*., 2004). Moreover, interactions also play significant and vital roles in the development of organizational resources, capabilities, competitive advantage and performance relationship where interactions are measured in terms of the emphasis on teamwork approach, company procurement and logistic efficiency, networking and relationship between the firms and their suppliers, distributors and customers (Gimenez and Ventura, 2002; Ray *et al*., 2004).

ORGANIZATIONAL PERFORMANCE

Competitive advantage and firm's performance are two different constructs and their relationship seems to be complex (Ma, 2000). Studies have shown that there is a significant relationship between competitive advantage and performance (Ma, 2000; Fahy, 2000; Gimenez and Ventura, 2002; Wang and Lo, 2003; Wiklund and Shepherd, 2003; Bowen and Ostroff, 2004; Morgan *et al*., 2004; Ray *et al*., 2004). Fahy (2000) argues that the attainment of a sustainable competitive advantage position can be expected to lead to superior performance, usually measured in conventional terms such as market-share and profitability, i.e., the financial performance measurement approach. In other words, anchoring on the view that competitive advantage and performance are two different concepts and dimensions, firms should focus their managerial strategy towards attaining and sustaining competitive advantage position over their rivals. Subsequently, such a competitive advantage position will lead to superior firm's performance.

Nonetheless, we should also bear in mind the existence of the other two potential relationships between competitive advantage and performance as projected by Ma (2000), namely that competitive advantage does not always lead to superior performance. Bearing in mind the notion that competitive advantage is a relational concept and it is also context-specific, there are possibilities that competitive advantage does not result in superior firm's performance and there are also possibilities that superior firm's performance being achieved without attaining and/or sustaining competitive advantage position.

However more often than not, the first scenario that competitive advantage will lead to superior performance will prevail given the fact that firms focus their competitive strategy towards enhancing their resource pool (Fahy, 2000). Indeed as Barney (1991) has argued, firm's resources which include all its assets, capabilities, organizational processes, firm's attributes, information, knowledge, etc., owned and/or controlled by a firm will eventually enable the firm to conceive and implement strategies that will improve its efficiency and effectiveness, hence superior firm's performance.

Further, Gimenez and Ventura (2002) have analyzed the relationship between internal and external integration processes and their significant effect on firms' performance and competitive advantage. The study uses variables such as competitive advantage, firm's performance and the internal and external integration process based on Supply Chain Management (SCM) which is measured and operationalized in terms of absolute and relative performance in areas of teamwork, shared ideas, information, planning, objectives, responsibility; sales, logistics processes and cost efficiencies. Wang and Lo (2003) examine the important role of customer-focused performance and its significant interactive relationships with other dimensions of the overall performance system and goes further to analyze the components and dynamics of customer-focused performance. They argue that performance should be based on a broader concept rather than just on financial performance measurement, namely; overall performance (i.e., offerings and competencies), customer-focused performance, shareholder-based performance and employee-based performance. The study measures performance in terms of products ad services, internal processes, growth, capabilities ad skills, quality, sacrifice, value ad satisfaction, revenue, growth, return on assets, personal development, empowered teams and employee satisfaction. Wiklund and Shepherd (2003) who studied the significant relationship between resources, entrepreneurial orientation and performance, argue that firm's performance should be based and measured on a wider dimension, namely organizational ad procedural knowledge; innovativeness, proactiveness, risk-taking; net profit, sales growth, cash flow, product ad process innovation, product ad service quality ad variety and customer satisfaction.

They further argue that Resource-Based View (RBV) research focuses mainly on the characteristics of resources, paying less attention to the relationship between these resources and the way firms are organized. Bowen and Ostroff (2004) study the significant relationship between Human Resource Management (HRM) system work climate and firm's performance using measurements such as employee attributes, perceptions, utilization, participation and rating. They find a significant relationship in such that the strength of the HRM system can help explain how individual employee attributes accumulate to affect organizational effectiveness and firm's performance.

In another study, Morgan *et al*. (2004) focus on the significant interaction among available resources and capabilities, competitive strategy decisions, competitive advantage and performance outcomes in the export venture. These variables are conceptualized in terms of experiential, financial, scale ad physical resources; product-development, relationship-building ad informational capabilities; cost leadership, marketing ad service differentiation; service-based, product-based ad cost-based advantage; economic, distributor ad end-user. While most studies examine the impact of firm-specific resources on firm's performance, the study by Ray *et al*. (2004) adopt the effectiveness of business processes as a significant dependent variable instead of firm's performance. The effective variables in this study are capabilities, business process ad competitive advantage which are measured by service climate, managerial IT knowledge, technology resources, investment; customer service quality, self-assessment, weighted retention ratio and complaints ratio.

In light of these findings and developments, indeed performance, namely superior performance is the ultimate objective of the management of business organization. Competitive advantage is seen as the precursor to superior firm's performance. A study of performance measurement system and strategy by Franco-Santos *et al*. (2007) identifies the key characteristics of a Business Performance Measurement (BPM) system by reviewing the different definitions and the necessary ad sufficient conditions of a BPM system which among others should strategically include these elements and/or items, namely, methods, Information Systems (IS), procedures, activities and processes.

As Neely (2005) finds out in his study of performance measurement system and manufacturing strategy, Balanced Score Card (BSC) continues to be the dominant performance measurement system applicable. BSC (Kaplan and Norton, 1992) which encapsulates not only the financial performance measures but also other related elements (customer, internal process and learning ad growth perspectives) manages to capture a comprehensive outlook into the performance dimension. Neely (2005) conceptualizes performance measurement system in terms of market standing, innovation, productivity, physical ad financial resources, profitability, manager performance ad development, worker performance ad attitude and public responsibility.

Indeed, the issue of heterogeneous firm's performance and the determining factors to such incidence are important issues in the field of strategic management. Studies link such performance differences to either the industry-specific factors or the firm-specific factors (Hawawini *et al*., 2003, 2005; McNamara *et al*., 2005) with mixed empirical result exhibited. This has led some strategic management researchers to question the inability of empirical studies to consistently and objectively explain differences in organizational performance, putting the blame on the research sampling practices (Short *et al*., 2002), performance measurement methods and dimensions (Denrell, 2004; Starbuck, 2004) and the effects of industry velocity (Brauer and Schmidt, 2006). In short, an effective performance measurement system should be able to capture not only the financial aspect of business performance but also the non-financial elements so as to present a clearer and wider perception and dimension of performance.

For this particular research, specific attention will be accorded to performance from the dimension of financial and non-financial, the main elements of which consist of sales-based and organizational-based. Research have found that there is a significant relationship between competitive advantage and sales-based performance of organizations where sales-based performance is measured in terms of the level of sales revenue, profitability, return on investments, productivity, product added value, market share and product growth (Wang and Lo, 2003; Neely, 2005; Falshaw *et al*., 2006). In addition, other previous studies have also further illustrated that there is a significant relationship between competitive advantage and organizational-based performance of organizations where organizational-based performance is measured in terms of the emphasis on efficient organizational internal processes, customer satisfaction, employee development and job satisfaction (Wang and Lo, 2003; Neely, 2005). As such this study advances the following hypothesis:

H_1: There is a significant positive relationship between organizational systems and performance.

DISCUSSION

Studies concerning Resource-Based View (RBV) have concentrated on the attributes of resources to attain competitive advantage, covering areas such as the resource substitution effects (Yoo and Choi, 2005), complementary innovation-producing resources (King *et al*., 2003) and consumer value perspective (Priem, 2007). More efforts are needed to extend the RBV from merely examining the resource attributes (Peteraf and Barney, 2003; Rodriguez and Rodriguez, 2005) to analyzing the extent of the relationship between these resources and other related variables towards achieving competitive advantage level (Armstrong and Shimizu, 2007). By moving towards this direction, such a study will not only improve the rigour of the RBV but also sustain the continued relevance of the RBV of competitive advantage in strategic management (Meyer, 2006; Hambrick and Chen, 2008).

Further as mentioned based on the studies by Oliver (1997), Barney *et al*. (2001), Hitt *et al*. (2001), Makadok (2001), Afuah (2002), Adner and Helfat (2003), Miller (2003) and Sapienza *et al*. (2006) while a lot of attention has been paid to those attributes of capabilities that lead to competitive advantage of firms, a lot less attention has been given to the deployment of capabilities and supporting empirical evidence of these capabilities.

As such, as far as resources, capabilities, competitive advantage and performance of organization are concerned by introducing systems into the relationship equation, it is expected that the study will be able to fill in the gap that currently exists in the literature as mentioned by critics of the resource-based view.

Indeed, we need to examine further the approaches and techniques of exploitation and manipulation of resources and capabilities pertaining to organization by including systems as the influencing factor that will affect the relationship between those variables under probe. Thus, it is indeed critical to examine the relative extent of the relationship between organizational resources, capabilities, systems, competitive advantage and performance in aggregate as well as the magnitude of the relationship between organizational systems and performance per se. This will extend support to the RBV of competitive advantage.

Organizational performance has been examined from various approaches, namely; inter alia, the transaction cost perspective (Hennart, 1991; Carter and Hodgson, 2006; King, 2007), the theory of constraints perspective (Watson *et al*., 2007) and also the resource-based view perspective (Leiblein, 2003). This study is a firm-level research from the resource-based view perspective, since we are concerned with answering the research question concerning the relationship between organizational resources, capabilities and systems. The findings from this research will be an important input to the knowledge gap, especially to organizations when they intend to formulate and implement strategic decision concerning the organizational competitive advantage and performance level.

CONCLUSION

Examining organizational performance and competitive advantage from the RBV is indeed vital as it can be applied as a conceptual framework for business organization in particular to enhance their competitive advantage position and performance level via application and manipulation of identified internal organizational resources and systems. Such a research has potential to contribute to the body of knowledge by lending empirical support and further extending the RBV of competitive advantage by examining the relative magnitude of importance placed upon organizational resources and systems towards attaining competitive advantage and improving performance.

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